

Bond Yields and Prices - They are Inverse!

Bond yields represents the returns for holding a bond to maturity. This returns come from the coupons[1] and the expected change in bond prices.

Bond prices are the prices at which the bonds are trading (you don't say!) It usually hovers around \$100.

There are a lot written on this so I shall not reinvent the wheel.

Here is a good explanation: <https://financetrain.com/understanding-inverse-priceyield-relationship-in-bonds/>

You don't need to memorise any details, just remember that bond yields and prices are inverse of each other[2]. When yields go up, prices drop, and vice versa.

That's all you need to know for now to prepare for the rest of the chapter.

[1] Here is a primer on bonds and coupons: <https://www.investopedia.com/terms/b/bond.asp>

[2] Bond yields and prices are not 2 separate entities or assets. They are 2 sides of the same coin. These are just 2 different ways to reflect the state of a bond.